

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 NEA-09 ISO-00 SAM-01 CIAE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 STR-04 AGR-05 EB-07 COME-00 TRSE-00 AID-05

OMB-01 OPIC-03 FRB-03 /101 W

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R 260927Z MAR 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 2252

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMCONSUL LOURENCO MARQUES

AMCONSUL LUANDA

AMEMBASSY MADRID

AMEMBASSY PARIS

USMISSION NATO

DIA WASHDC

USCINCEUR VAIHINGEN GER

AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

AMEMBASSY RABAT

AMEMBASSY STOCKHOLM

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E.O. 11652: N/A

TAGS: EFIN, PINT, PO

SUBJ: UPDATE ON NATIONALIZATION OF BANKING AND INSURANCE

INDUSTRIES

REF: (A) LISBON 1504; (B) LISBON 1220

SUMMARY: BANKS AND INSURANCE ENTERPRISES ARE FUNCTIONING BUT
AT A SLOWER-THAN-USUAL PACE. DEVELOPMENTS RELATED TO THESE
TWO ACTIVITIES ARE REPORTED ON BELOW. END SUMMARY.

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1. NATIONALIZED BANKS AND INSURANCE COMPANIES ARE OPERATING BUT AT SLOWER THAN NORMAL PACE. DECISION-MAKING IS RETARDED BECAUSE EVEN ROUTINE MATTERS ARE BEING PASSED UP TO NEWLY APPOINTED ADMINISTRATIVE COMMITTEES FOR DECISION. THESE COMMITTEES IN TURN FREQUENTLY CONSULT THE MINISTRY OF FINANCE BEFORE DETERMING A COURSE OF ACTION.

2. ONLY ELEMENT OF PREVIOUS ADMINISTRATIONS THAT HAVE BEEN REMOVED ARE PRINCIPAL OWNERS. DEPARTMENT HEADS ARE STILL IN PLACE. SOME INTERNATIONAL DEPARTMENT MANAGERS ARE IN FACT CURRENTLY ABROAD SEEKING TO REASSURE CORRESPONDENT BANKS.

3. BANK AND INSURANCE NATIONALIZATION DECREES HAVE APPEARED IN THE OFFICIAL GAZETTE. THEY CONFIRM EARLIER REPORTS THAT (A) ADMINISTRATIVE COMMITTEES WILL EXIST FOR ONLY 90 DAYS, AFTER WHICH TIME A PERMANENT SYSTEM OF MANAGEMENT WILL HAVE BEEN INSTITUTED; (B) DECISION-MAKING POWERS OF THE COMMITTEES ARE LIMITED; AND (C) COMPENSATION TO FORMER SHAREHOLDERS WILL BE MADE BUT IN FORM YET TO BE DETERMINED.

4. REVOLUTIONARY COUNCIL MARCH 24 REVAMPED LEADERSHIP OF BANK OF PORTUGAL (CENTRAL BANK) BY NAMING FOUR NEW ADMINISTRATORS AND DISMISSING THREE. TWO OF THE THREE DISMISSED WERE PRE-APRIL 25 HOLDOVERS. THE THIRD IS JOAO SALGUEIRO, LEADING ECONOMIST AND POLITICAL CENTRIST (SEE REF (B)), WHO WAS APPOINTED AS A VICE GOVERNOR LAST FALL. ACCORDING TO PUBLIC RELATIONS OFFICE OF THE BANK, GOVERNOR JACINTO NUNES AND VICE GOVERNOR MURTEIRA, WILL CONTINUE IN THEIR PRESENT FUNCTIONS. (MURTEIRA MAY VERY WELL BE NAMED AS ONE OF GOP'S ECONOMIC MINISTERS.)

5. CONFEDERATION OF PORTUGUESE INDUSTRIES (CIP) HAS ISSUED A TEPID STATEMENT ON BANK AND INSURANCE NATIONALIZATION IN WHICH IT SAYS IT HAS NO QUARREL WITH THE POLITICAL FACTORS WHICH LED TO THE DECISION BUT WHICH POINTS OUT THE RISKS TO INDUSTRY OF HAVING A UNIFORM BANKING AND INSURANCE SYSTEM; E.G., POSSIBILITIES OF FAVORITISM AND FAILURE TO TAKE PROPERLY INTO ACCOUNT INDUSTRIES' NEEDS.

6. AMERICAN BANKERS ON THE SCENE SINCE MARCH 11 FIND THAT
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ALTHOUGH DEPARTMENT HEADS HAVE NOT BEEN DISMISSED, THEY ARE PESSIMISTIC ABOUT THEIR FUTURE AND THE COURSE BANKING IS LIKELY TO TAKE. RE LATTER, THEY FORESEE SYSTEM OF SPECIALIZED BANKS-- FOREIGN TRADE, AGRICULTURE, HOUSING--ALONG LINES OF EASTERN EUROPEAN SYSTEMS. AMERICAN BANKERS SAY THEY ARE TAKING STEPS TO REDUCE THEIR EXPOSURE IN PORTUGAL.

7. COMMENT:

A. NATIONALIZATION HAS SLOWED BUT NOT PARALYZED BANKING AND INSURANCE OPERATIONS. GOP'S INTEREST AT MOMENT SEEMS TO BE CENTERED ON KEEPING THESE ACTIVITIES GOING AND GENERATING CONFIDENCE AT HOME AND OVERSEAS WHILE REORGANIZATION IS BEING EFFECTED. PERSONS NAMED BY GOP TO INTERIM ADMINISTRATIVE COMMITTEES, WHILE CHOSEN TO LARGE EXTENT FOR THEIR ACCEPTABILITY TO UNION, ARE AT LEAST PERSONS WITH BANKING EXPERIENCE.

B. CHANGE AT BANK OF PORTUGAL IS A MIXED SIGNAL. MAINTAINING JACINTO NUNES AS GOVERNOR WILL TEND REASSURE INTERNATIONAL FINANCIAL COMMUNITY, WHERE HE IS WELL-KNOWN. OTHER CHANGES SUGGEST A GOP INITIATIVE TO INSTALL PERSONS SYMPATHETIC TO ITS SOCIALIST OBJECTIVES; HOWEVER, WE HAVE LITTLE INFORMATION ON POLITICAL PROPENSITIES OF NEWLY-NAMED ADMINISTRATORS. DISMISSAL OF SALGUEIRO SMACKS OF ANTI-PPD BIAS.

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